

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name CHELSEA AREA FIRE AUTHORITY	County WASHTENAW
Audit Date 2/28/05	Opinion Date 11/17/05	Date Accountant Report Submitted to State: 1/6/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) DOVE & HICKEY, P.L.C.			
Street Address 209 E. WASHINGTON AVE., SUITE 255		City JACKSON	State MI
		ZIP 49201	
Accountant Signature <i>Dove & Hickey, P.L.C.</i>			Date 1/6/06

CHELSEA AREA FIRE AUTHORITY
WASHTENAW COUNTY - MICHIGAN
FINANCIAL STATEMENTS
Year Ended February 28, 2005

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INDEPENDENT AUDITOR'S REPORT

Authority Board
Chelsea Area Fire Authority
Washtenaw County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund information of Chelsea Area Fire Authority as of and for the year ended February 28, 2005, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Chelsea Area Fire Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund information of Chelsea Area Fire Authority as of February 28, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 8 the Authority has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as of February 28, 2005.

The budgetary comparison schedule, as identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. Chelsea Area Fire Authority has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of the financial statements.

Dove & Hickey, P.L.C.

November 17, 2005

CHELSEA AREA FIRE AUTHORITY
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
Year Ended February 28, 2005

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
Cash and investments	\$133,519
Receivables - employees	236
Due from other governments	156,276
Prepaid expenses	4,000
Capital assets - net	<u>527,127</u>
Total assets	<u>821,158</u>
<u>LIABILITIES</u>	
Accounts payable	59,365
Accrued liabilities	28,225
Accrued interest	2,069
Vested employee benefits:	
Due within one year	3,250
Due in more than one year	38,450
Long-term debt:	
Due within one year	20,513
Due in more than one year	<u>105,974</u>
Total liabilities	<u>257,846</u>
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	400,640
Unrestricted	<u>162,672</u>
Total net assets	<u>\$563,312</u>

See accompanying notes to financial statements.

CHELSEA AREA FIRE AUTHORITY
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year Ended February 28, 2005

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			Net (Expense) Revenue and Changes in Net Assets
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
GOVERNMENTAL ACTIVITIES:					
Public Safety	\$ <u>754,307</u>	\$ <u>57,633</u>	\$ <u>705,547</u>	\$ <u>62,987</u>	\$ <u>71,860</u>
Total governmental activities	\$ <u>754,307</u>	\$ <u>58,733</u>	\$ <u>705,547</u>	\$ <u>62,987</u>	<u>71,860</u>
GENERAL REVENUES:					
					645
					<u>5,954</u>
					<u>6,599</u>
CHANGES IN NET ASSETS					78,459
NET ASSETS - BEGINNING OF YEAR, AS RESTATED					<u>484,853</u>
NET ASSETS - END OF YEAR					<u>\$563,312</u>

See accompanying notes to financial statements.

CHELSEA AREA FIRE AUTHORITY
GOVERNMENTAL FUNDS -
BALANCE SHEET
February 28, 2005

	<u>GENERAL FUND</u>	<u>PUBLIC IMPROVEMENT FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>			
Cash and investments	\$133,512	\$ 7	\$133,519
Receivables - employees	236	-0-	236
Due from other governments	156,276	-0-	156,276
Prepaid expenses	<u>4,000</u>	<u>-0-</u>	<u>4,000</u>
Total assets	<u>\$294,024</u>	<u>\$ 7</u>	<u>\$294,031</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 59,365	\$ -0-	\$ 59,365
Accrued liabilities	28,225	-0-	28,225
Vested employee benefits	<u>3,250</u>	<u>-0-</u>	<u>3,250</u>
Total liabilities	<u>90,840</u>	<u>-0-</u>	<u>90,840</u>
Fund Balances:			
Reserved	134,815	7	134,822
Unreserved/undesignated	<u>68,369</u>	<u>-0-</u>	<u>68,369</u>
Total fund balances	<u>203,184</u>	<u>7</u>	<u>203,191</u>
Total liabilities and fund balances	<u>\$294,024</u>	<u>\$ 7</u>	<u>\$294,031</u>

See accompanying notes to financial statements.

CHELSEA AREA FIRE AUTHORITY
RECONCILIATION OF FUND BALANCES ON THE
BALANCE SHEET FOR GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS -
GOVERNMENTAL FUNDS
February 28, 2005

Fund balances - total Governmental funds	\$203,191
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund	527,127
Accrued interest payable is not included as liability in governmental fund	(2,069)
Long-term liabilities not due and payable in the current period and not reported in the governmental fund:	
Capital leases	(126,487)
Vested employee benefits	<u>(38,450)</u>
Net assets of governmental activities	<u>\$563,312</u>

See accompanying notes to financial statements.

CHELSEA AREA FIRE AUTHORITY
GOVERNMENTAL FUNDS - STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended February 28, 2005

	<u>GENERAL FUND</u>	<u>PUBLIC IMPROVEMENT FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES:			
Federal sources	\$ 62,987	\$ -0-	\$ 62,987
Charges for services	762,255	-0-	762,255
Interest	645	-0-	645
Contributions	925	-0-	925
Refunds and reimbursements	<u>5,954</u>	<u>-0-</u>	<u>5,954</u>
Total revenues	<u>832,766</u>	<u>-0-</u>	<u>832,766</u>
EXPENDITURES:			
Current:			
Public Safety	<u>811,495</u>	<u>-0-</u>	<u>811,495</u>
Total expenditures	<u>811,495</u>	<u>-0-</u>	<u>811,495</u>
EXCESS OF REVENUES OVER EXPENDITURES	21,271	-0-	21,271
FUND BALANCE - BEGINNING OF YEAR, AS RESTATED	<u>181,913</u>	<u>7</u>	<u>181,920</u>
FUND BALANCE - END OF YEAR	<u>\$203,184</u>	<u>\$ 7</u>	<u>\$203,191</u>

See accompanying notes to financial statements.

CHELSEA AREA FIRE AUTHORITY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGE IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended February 28, 2005

Net change in fund balances - total governmental funds	\$ 21,271
Amount reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.	71,274
Commitment for equipment recognized as paid by governmental funds but reported in statement of activities when incurred.	3,500
Depreciation on capital assets are reported as part of governmental activities	(41,349)
Repayment of capital lease principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	19,526
Interest expense is reported in statement of activities when incurred; it is not reported in governmental funds until paid. Amount represents change in accrued interest.	587
Vested employee benefits reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds - net decrease in accrual for vested employee benefits	<u>3,650</u>
Change in net assets of governmental activities	<u>\$ 78,459</u>

See accompanying notes to financial statements.

CHELSEA AREA FIRE AUTHORITY
FIDUCIARY FUNDS -
STATEMENT OF ASSETS AND LIABILITIES
February 28, 2005

FIDUCIARY
FUND TYPES
TRUST AND AGENCY

ASSETS

Cash and investments	\$ <u>2,000</u>
Total assets	\$ <u><u>2,000</u></u>

LIABILITIES AND
FUND BALANCE

Liabilities:	
Due to others	\$ <u>2,000</u>
Total liabilities	<u>2,000</u>
Fund Balance	<u>-0-</u>
Total liabilities and fund balance	\$ <u><u>2,000</u></u>

See accompanying notes to financial statements.

CHELSEA AREA FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
February 28, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Chelsea Area Fire Authority (the "Authority") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Chelsea Area Fire Authority.

Reporting Entity

The Chelsea Area Fire Authority was established under the provisions of Act 57, Public Acts of 1988. The incorporating municipalities currently include the City of Chelsea (formerly the Village of Chelsea), the Townships of Dexter, Lima, Lydon and Sylvan. The Authority is governed by a five (5) person Board of Trustees, and one trustee from each incorporating municipality. The Authority provides fire protection and emergency services within the total territory of the incorporating municipalities pursuant to a contract with the Authority. The accompanying financial statements present the Authority's entities for which the Authority is considered to be financially accountable. The Authority has no component units.

Pursuant to the Pre-Incorporation Agreement, signed May 25, 1999 by the Village President and Clerk, the Village of Chelsea agreed to transfer the equipment of the Chelsea Fire Department. The recorded value of the equipment in the Village of Chelsea's Capital Assets was \$927,983. The Village has since incorporated into a City. As of February 28, 2005, the City of Chelsea has not relinquished title to the equipment, as such, the equipment is not reflected in Chelsea Area Fire Authority's Capital Assets.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

CHELSEA AREA FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
February 28, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability. All other revenue items are considered to be available only when cash is received by the Authority.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Authority reports the following major governmental funds:

General Fund - The General Fund is the Authority's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Public Improvement Fund - The Public Improvement Fund is used to account for revenue earmarked for capital outlay requiring separate accounting because of legal provisions.

Additionally, the Authority reports the following fund types:

Agency Funds - The Agency Funds account for assets held by the Authority in a trustee capacity for the Chelsea Fireman's Association, which is a fraternal organization of the Authority.

CHELSEA AREA FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
February 28, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Capital Assets - Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Authority as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Prepaid Expenses - Certain payments to vendors reflect costs applicable to future years and are recorded as prepaid items in both the government-wide and fund financial statements.

GASB No. 34 requires the Authority to report and depreciate new infrastructure assets effective with the beginning of the current year. Infrastructure assets include roads, bridges, traffic signals, etc. The Authority has elected not to report major general infrastructure assets retroactively.

Capital assets are depreciated using the straight-line method over the following useful lives:

Equipment	5 to 20 years
Vehicles and trucks	7 to 30 years

CHELSEA AREA FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
February 28, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Assets, Liabilities, and Net Assets or Equity (Continued)

Receivables - Receivables in governmental activities are all primarily due from other governments. No allowance for doubtful accounts is provided for.

Vested Employee Benefits - Accrued Severance Pay - The Authority maintains a severance pay plan for regular firefighters, permanent employees, and investigators. To be eligible for severance pay, an employee must have completed ten years of service. An employee may use five years of reserve duty toward qualifying severance time. A reserve member must meet the requirements of the residence policy of the Authority for the reserve time to qualify. At the completion of the tenth year, an employee will have earned one thousand dollars (\$1,000) toward his/her severance fund. For each additional year completed, one hundred dollars (\$100) per year will be added to the employee's severance fund. Severance pay is accrued when the employees are vested in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only for employees terminated as of year end.

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

CHELSEA AREA FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
February 28, 2005

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end. Before February 1, the proposed budget is submitted to the Authority Board and the member municipalities for review. Public hearings are held, and a final budget is adopted no later than February 28. The Authority Board must approve any budget amendments.

The appropriated budget is prepared by fund, activity, and line items. The legal level of budgetary control is the activity level.

The government does not utilize encumbrance accounting.

3. DEPOSITS AND INVESTMENTS

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes the local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classification, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Authority's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At year end, the Authority had \$166,831 of bank deposits (checking accounts), of which \$100,000 was covered by federal depository insurance, and the remainder was uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

CHELSEA AREA FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
February 28, 2005

3. DEPOSITS AND INVESTMENTS (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Authority has no investment policy that would further limit its investment choices. As of year end, the Authority did not have any investments.

4. CAPITAL ASSETS

Capital asset activity of the Authority's governmental activities was as follows:

	Balance March 1, 2004	Additions	Disposals and Adjustments	Balance February 28, 2005
Governmental Activities:				
Capital assets being depreciated:				
Equipment	\$203,576	\$ 67,274	\$ -0-	\$270,850
Vehicles and trucks	<u>358,773</u>	<u>4,000</u>	<u>-0-</u>	<u>362,773</u>
Total capital assets being depreciated	<u>562,349</u>	<u>71,274</u>	<u>-0-</u>	<u>633,623</u>
Less: accumulated depreciation:				
Equipment	33,712	20,276	-0-	53,988
Vehicles and trucks	<u>31,435</u>	<u>21,073</u>	<u>-0-</u>	<u>52,508</u>
Total accumulated depreciation	<u>65,147</u>	<u>41,349</u>	<u>-0-</u>	<u>106,496</u>
Total capital assets being depreciated - net	<u>497,202</u>	<u>29,925</u>	<u>-0-</u>	<u>527,127</u>
Total capital assets - net	<u>\$497,202</u>	<u>\$ 29,925</u>	<u>\$ -0-</u>	<u>\$527,127</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

Public Safety	\$ <u>41,349</u>
Total governmental activities	\$ <u>41,349</u>

CHELSEA AREA FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
February 28, 2005

5. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended February 28, 2005, the Authority carried commercial insurance to cover all risks of losses. The Authority has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

6. LEASE COMMITMENTS

Capital Leases

The Authority's outstanding lease agreements include the acquisition of fire equipment at the cost of \$45,381 and a rescue truck at the cost of \$230,000. These leases qualify as capital leases.

The debt service for capital leases are as follows:

Governmental Activities:

<u>Year Ending February 28</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 20,513	\$ 6,004
2007	21,550	4,965
2008	12,540	3,875
2009	13,116	3,300
2010	13,718	2,698
2011 - 2013	<u>45,050</u>	<u>4,197</u>
Total	<u>\$126,487</u>	<u>\$ 25,039</u>
Range of interest rates	4.59% - 5.65%	
Cost of assets	\$275,381	
Accumulated depreciation	\$ 37,815	
Total interest paid for year ended February 28, 2005	\$ 6,990	

CHELSEA AREA FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
February 28, 2005

6. LEASE COMMITMENTS (Continued)

Operating Leases

The Authority leases office space and equipment. The leases are recorded as operating leases. Total rental expense under operating lease agreements is \$14,495. The following is a summary of future minimum payments under noncancelable leases at February 28, 2005:

<u>YEARS</u>	<u>AMOUNT</u>
2006	\$ 3,342
2007	1,842
2008	1,842
Thereafter	<u>-0-</u>
	<u>\$ 7,026</u>

7. LONG-TERM DEBT

Long-term obligation activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Vested employee benefits	\$ 42,100	\$ 2,200	(\$ 2,600)	\$ 41,700	\$ 3,250
Lease obligations payable	<u>146,013</u>	<u>-0-</u>	<u>(19,526)</u>	<u>126,487</u>	<u>20,513</u>
Total governmental activities	<u>\$188,113</u>	<u>\$ 2,200</u>	<u>(\$ 22,126)</u>	<u>\$168,187</u>	<u>\$ 23,763</u>

CHELSEA AREA FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
February 28, 2005

8. ACCOUNTING AND REPORTING CHANGE

As of and for the year ended February 28, 2005, the Authority implemented Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Chelsea Area Fire Authority has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). The Authority has elected to implement the general provisions of the statement and not the retroactive reporting of the infrastructure in the current year. Certain significant changes in the statement include the following:

- A management's discussion and analysis section providing an analysis of the Authority's overall financial position and results of operations, which the Authority has opted not to present this year.
- Financial statements prepared using full accrual accounting for all of the Authority's activities.
- A change in the fund financial statements to focus on the major funds
- Capital assets at March 1, 2004 previously reported in the General Fixed Assets Account Group have been adjusted to reflect the historical cost of the Authority's capital assets at the date.

As a result of implementing GASB 34 for the year ended February 28, 2005, the following restatements were made to the net asset accounts:

	<u>Governmental Activities</u>
Equity at February 29, 2004, as previously reported	\$177,920
Effect of recording full accrual information on the government-wide statements:	
Prepaid expenses	4,000
Capital assets	497,202
Vested employee benefits	(42,100)
Accrued interest	(2,656)
Commitment for equipment not payable with current resources	(3,500)
Capital leases at February 28, 2004 previously recorded in General long-term debt account group	(146,013)
Net assets - March 1, 2004	<u>\$484,853</u>

REQUIRED SUPPLEMENTAL INFORMATION

CHELSEA AREA FIRE AUTHORITY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
Year Ended February 28, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
REVENUES:				
Charges for services	\$794,371	\$794,371	\$762,255	(\$ 32,116)
Interest	-0-	600	645	45
Federal grants	-0-	62,987	62,987	-0-
Contributions	-0-	1,200	925	(275)
Refunds and reimbursements	-0-	6,200	5,954	(246)
Total revenues	<u>794,371</u>	<u>865,358</u>	<u>832,766</u>	<u>(32,592)</u>
EXPENDITURES:				
Current:				
Public Safety	<u>767,541</u>	<u>838,528</u>	<u>811,495</u>	<u>27,033</u>
Total expenditures	<u>767,541</u>	<u>838,528</u>	<u>811,495</u>	<u>27,033</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	26,830	26,830	21,271	(5,559)
FUND BALANCE - BEGINNING OF YEAR, AS RESTATED	<u>181,913</u>	<u>181,913</u>	<u>181,913</u>	<u>-0-</u>
FUND BALANCE - END OF YEAR	<u>\$208,743</u>	<u>\$208,743</u>	<u>\$203,184</u>	<u>(\$ 5,559)</u>

See accompanying notes to financial statements.

CHELSEA AREA FIRE AUTHORITY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE -
PUBLIC IMPROVEMENT FUND
Year Ended February 28, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
REVENUES:				
Charges for services	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Interest	-0-	-0-	-0-	-0-
Federal grants	-0-	-0-	-0-	-0-
Contributions	-0-	-0-	-0-	-0-
Refunds and reimbursements	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total revenues	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
EXPENDITURES:				
Current:				
Public Safety	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total expenditures	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	-0-	-0-	-0-	-0-
FUND BALANCE - BEGINNING OF YEAR	<u>7</u>	<u>7</u>	<u>7</u>	<u>-0-</u>
FUND BALANCE - END OF YEAR	\$ <u>7</u>	\$ <u>7</u>	\$ <u>7</u>	\$ <u>-0-</u>

See accompanying notes to financial statements.

Dove & Hickey, P.L.C.

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MEMBERS:

**AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS**

**MICHIGAN ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS**

**GEORGE DOVE, C.P.A.
PAUL T. HICKEY, C.P.A.
NANNETTE M. SPONSER, C.P.A.
ALLISON I. COLE, C.P.A.**

November 17, 2005

Authority Board
Chelsea Area Fire Authority
Washtenaw County, Michigan

Board Members:

In planning and performing our audit of the financial statements of the Chelsea Area Fire Authority for the year ended February 28, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, during our audit, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Authority's ability to initiate, record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that might be reportable conditions. In addition, because of inherent limitations in internal control, errors or fraud may occur and not be detected by such controls.

Due to the size of the office staff, one individual is responsible for most of the accounting duties. While this is common in most small organizations, and you have in place several controls, you need to be aware that this still limits the overall internal controls of the Authority.

Internal Control Considerations

The Business Manager makes bank deposits, prepares checks, prepares bank reconciliations, and creates and posts all entries to the general ledger. We suggest that additional oversight procedures be instituted to strengthen these internal controls. Such procedures could be that a Board Member open bank statements and scan them for unusual items, review monthly bank reconciliations, approve journal entries, and scan payrolls, etc.

Internal Control Considerations - (Continued)

We also suggest that someone other than the Billing Specialist approve fire run billings. The Business Manager should reconcile the outstanding receivable balance at least monthly with the Billing Specialist. Additionally, we suggest that the Billing Specialist not be allowed to pick up receipts from the fire station, before the Business Manager can prepare the deposit slip.

During a discussion with the Business Manager it was mentioned that employee payroll advances were verbally approved by the Fire Chief. We suggest that written documentation be required before an advance can be made. The document should be signed by the Chief, as well as the employee.

Other Items

We noted during our audit that the personnel files did not contain IRS Form W-4. We suggest that the Authority have all current employees complete this form.

We noted that the bank reconciliation for the checking account has several old outstanding checks. We suggest that the Business Manager review these checks to see if they are valid and need to be re-issued or written-off.

We believe that implementation of these recommendations will provide the Authority with a stronger system of internal accounting control while also making its operations more efficient. We will be happy to discuss the details of these recommendations with you and assist in any way possible with their implementation. This report is intended solely for the information and use of the Board Members and management within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the opportunity to serve you.

Respectfully yours,

Dove & Hickey, P.C.